

Message Text

CONFIDENTIAL

PAGE 01 SEOUL 03050 01 OF 02 150653Z
ACTION EA-09

INFO OCT-01 ISO-00 ONY-00 /010 W
-----150657Z 086040 /14

R 150326Z APR 77
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 3265

C O N F I D E N T I A L SECTION 1 OF 2 SEOUL 3050

STADIS////////////////////////////////////

EA ONLY FOR EA/EP

E.O. 11652: GDS
TAGS: PFOR AMGT KS
SUBJ: EAST ASIA ECONOMIC POLICY REVIEW

REF: STATE 073295

SUMMARY: CONTINUED ECONOMIC GROWTH REMAINS AN ESSENTIAL
FACTOR IN THE ROK'S EFFORTS TO MAINTAIN ITS INDEPENDENCE
AND MEET THE THREAT FROM THE NORTH. THIS GROWTH IN TURN
REQUIRES LARGE INVESTMENTS AND A STEADY AND SUSTAINED
EXPANSION OF EXPORTS. WHILE IT APPEARS THAT SUFFICIENT
FINANCING FOR INVESTMENT CAN BE OBTAINED FROM WORLD CAPITAL
MARKETS AND INCREASED DOMESTIC SAVINGS, EXPORT GROWTH WILL
DEPEND ON A CONTINUED WORLDWIDE LIBERAL TRADING SYSTEM,
INFLUENCED TO NO SMALL EXTENT BY U.S. POLICIES AND
ACTIONS IN THIS AREA. IN ADDITION, KOREA WILL BE
DEPENDENT ON AN OPEN SYSTEM OF TECHNOLOGICAL TRANSFER
AS IT ATTEMPTS TO MOVE FROM LIGHT, CONSUMER ORIENTED
EXPORTS TO MORE ADVANCED AND HEAVY INDUSTRIAL EQUIP-
MENT. END SUMMARY

1. IN ANY EVALUATION OF U.S. ECONOMIC POLICIES AS
THEY RELATE TO KOREA, CERTAIN BASIC FACTS AND PREMISES
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SEOUL 03050 01 OF 02 150653Z

NEED TO BE TAKEN INTO ACCOUNT. ALTHOUGH DIRECT U.S.
ECONOMIC INTERESTS IN THE ROK ARE SIGNIFICANT, THEY
ARE NOT OVERLY LARGE. IN 1976 TOTAL TRADE BETWEEN
THE TWO COUNTRIES AMOUNTED TO \$4.4 BILLION, OF WHICH
\$1.9 BILLION WERE U.S. ORIGIN EXPORTS. SINCE 1970
U.S. EXPORTS TO THE ROK HAVE GROWN 3.36 TIMES OR
AT A COMPOUND GROWTH RATE OF 22.4 PERCENT. ON THE

OTHER HAND, WHILE TOTAL U.S. DIRECT INVESTMENT AMOUNTS TO ONLY ABOUT \$250 MILLION AND IS NOT EXPECTED TO INCREASE SIGNIFICANTLY, LARGE AMOUNTS OF U.S. FINANCE CAPITAL HAVE BEEN LENT TO KOREA BOTH BY PUBLIC INSTITUTIONS AND COMMERCIAL BANKS (CUMULATIVELY OVER THE YEARS THE LATTER HAS REACHED SLIGHTLY OVER \$3 BILLION).

2. OUR PRINCIPAL ECONOMIC INTEREST, HOWEVER, IS IN KOREA'S CONTINUED GROWTH AND ECONOMIC DEVELOPMENT. THE THREAT TO THIS COUNTRY FROM ITS IDEOLOGICAL FOE TO THE NORTH COMES FROM BOTH EXTERNAL INVASION AND INTERNAL SUBVERSION. ALTHOUGH THE LATTER REMAINS UNSUCCESSFUL AT THIS TIME, RAPID, SUSTAINED, AND BALANCED ECONOMIC GROWTH IN BOTH TOWN AND COUNTRY-SIDE HAVE CONTRIBUTED TO NO SMALL EXTENT TO THIS CONDITION. THUS, ECONOMIC GROWTH WILL REMAIN IMPORTANT, IF NOT ESSENTIAL IN THE YEARS AHEAD IN PRESERVING SOUTH KOREA AS AN INDEPENDENT ENTITY. THE ECONOMIC EXPANSION EXPERIENCED THUS FAR PROVIDES THE RESOURCES TO MEET MUCH OF THE COUNTRY'S DEFENSE NEEDS (95 PERCENT OF THE NATION'S DEFENSE COSTS ARE NOW SELF-FINANCED); IT ALSO DEMONSTRATES A REALISTIC ALTERNATIVE TO THE MARXIST ROAD SO TOUTED AS THE SOLUTION TO LDC PROBLEMS. THIS CONTINUED ECONOMIC GROWTH, HOWEVER, IS PREDICATED ON TWO ECONOMIC FACTORS: HIGH INVESTMENT AND CONTINUED EXPORT GROWTH.

3. WITH RESPECT TO INVESTMENT, AS KOREA'S ECONOMY
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 SEOUL 03050 01 OF 02 150653Z

HAS DEVELOPED OVER THE PAST 15 YEARS, IT HAS BECOME LESS DEPENDENT ON FOREIGN ASSISTANCE, ESPECIALLY OFFICIAL GOVERNMENTAL LENDING AND GRANTS, TO FINANCE ITS INVESTMENT NEEDS. IN A LARGE MEASURE, THE DECREASE REFLECTS A RISE IN DOMESTIC SAVINGS, NOW 21 PERCENT OF GNP, WITH DOMESTIC SAVINGS AND INVESTMENT PROJECTED TO BE IN BALANCE BY THE END OF THE FOURTH FIVE YEARS PLAN-1981, AT 26 PERCENT OF GNP. NEVERTHELESS, THE FOURTH PLAN CALLS FOR BORROWING ABROAD OF ABOUT \$12.5 BILLION IN CURRENT DOLLARS; HOWEVER, ONLY \$5.1 BILLION OF THIS REPRESENTS NET NEW BORROWING. IN ADDITION, THERE MAY BE SOME NEED FOR INCREASED OFFICIAL LENDING (NOT NECESSARILY ON CONCESSIONAL TERMS) REFLECTING ANY REVISED ANALYSIS OF THE RISKS AS A CONSEQUENCE OF US TROOP WITHDRAWALS AND POSSIBLY A SOMEWHAT LARGER NEED FOR FOREIGN FINANCING FOR INCREASED MILITARY PURCHASES.

4. AT THIS JUNCTURE, UNLESS THE WORLD ECONOMIC SITUATION

DETERIORATES SUBSTANTIALY, OR POLITICAL DEVELOPMENTS
MAKE KOREA LESS ATTRACTIVE, WE SEE LITTLE DIFFICULTY
IN KOREA'S OBTAINING THE NECESSARY FINANCING FROM ABROAD,
PRINCIPALLY FROM COMMERCIAL SOURCES AND CAPITAL MARKETS
IN THE U.S., JAPAN, EUROPE, AND THE MIDDLE EAST. IT
IS POSSIBLE THAT SOMETIME DURING THE NEXT FIVE YEARS
KOREA MAY BECOME LESS ELIGIBLE TO BORROW FROM THE IBRD
AND ADB AS NATIONAL AND PER CAPITAL INCOME LEVELS CONTINUE
TO RISE. CONTINUED ACCESS TO THE IMF WILL REMAIN OF
MAJOR IMPORTANCE, ESPECIALLY IF AN ECONOMIC CRISIS
LIKE THAT OF 1974-75 RECURRED. UNDER PRESENT CONDITIONS
ASSISTANCE TO KOREA FROM THIS SOURCE IN THE AMOUNT WHICH
COULD BE DRAWN MAY BE INADEQUATE IN THE FUTURE BECAUSE
OF THE COUNTRY'S SMALL DRAWING RIGHTS RELATIVE TO TOTAL
TRADE AND THE EXPECTED LARGE CURRENT ACCOUNT DEFICIT
IN A CRISIS. THUS, AN ADDITIONAL INCREASE IN IMF
FACILITIES MAY BE NEEDED AS A POSSIBLE CUSHION FOR
CONFIDENTIAL

CONFIDENTIAL

PAGE 04 SEOUL 03050 01 OF 02 150653Z

UNFORESEEN DEVELOPMENTS. IN CONCLUSION, WHILE ACCESS
TO CAPITAL MARKETS REMAINS AN IMPORTANT ISSUE FOR
KOREA'S ECONOMIC FUTURE, AT PRESENT, IT IS NOT A
MAJOR PROBLEM, AND WITH GOOD WORLD ECONOMIC POLICIES
IT NEED NOT BECOME ONE.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 SEOUL 03050 02 OF 02 172321Z
ACTION EA-09

INFO OCT-01 ISO-00 ONY-00 /010 W
-----172326Z 117024 /61

R 150326Z APR 77
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 3266

C O N F I D E N T I A L SECTION 2 OF 2 SEOUL 3050

STADIS//////////

EA ONLY FOR EA/EP

5. THE TRADE ISSUE, AND PARTICULARLY U.S. POLICY BOTH IN REGARD TO ITS IMPORTS AND THE WORLD TRADING SYSTEM, IS THE MOST CRUCIAL ECONOMIC ISSUE FOR THE ROK'S FUTURE ECONOMIC GROWTH AND DEVELOPMENT. THE U.S. (32 PERCENT), JAPAN (23 PERCENT) AND THE EEC (13 PERCENT) REMAIN KOREA'S MOST IMPORTANT MARKETS AND WILL CONTINUE TO BE SO DESPITE THE COUNTRY'S EFFORTS TO ESTABLISH NEW MARKETS IN THE MIDDLE EAST AND OTHER LDC'S. IF THE U.S. FALTERS IN ITS ATTACHMENT TO AN EXPANDING AND LIBERAL WORLD TRADING SYSTEM, OTHER COUNTRIES CAN BE EXPECTED TO FOLLOW SUIT. IT WOULD MATTER LITTLE AS FAR AS KOREA IS CONCERNED WHETHER ITS EXPORTS ARE REDUCED OR SIMPLY FAILED TO GROW. THIS COUNTRY'S GROWTH IS TIED TO AND DRIVEN BY EXPORTS.

6. FOR THE NEXT FIVE YEARS, AND EVEN LONGER, KOREA'S EXPORTS ARE PROJECTED TO GROW BETWEEN 16 AND 20 PERCENT A YEAR IN REAL TERMS. THIS IS THE MINIMUM REQUIRED TO PROVIDE A REAL GROWTH OF 9 PERCENT PER ANNUM AS SET BY KOREA'S PLANNERS TO PROVIDE JOBS FOR AN EXPANDING LABOR FORCE AND IMPROVING LIVING STANDARDS. GROWING PROTECTIONISM IN WESTERN MARKETS, TOGETHER WITH POSSIBLE CONTINUED ECONOMIC SOFTNESS IN SOME DEVELOPED COUNTRIES, CONFIDENTIAL

CONFIDENTIAL

PAGE 02 SEOUL 03050 02 OF 02 172321Z

COULD MAKE THESE EXPORT GOALS DIFFICULT TO ACHIEVE. IF KOREA'S ECONOMIC GOALS CANNOT BE MET, INCREASED EMPLOYMENT, HIGHER LIVING STANDARDS, AND CONTINUED STRIVING FOR MORE EQUITABLE INCOME DISTRIBUTION WILL NOT BE ACHIEVED. THERE IS JUST NO OTHER VIABLE DEVELOPMENT STRATEGY FOR KOREA. OVER POPULATED AND RESOURCE POORT, ITS DEVELOPMENT MUST FOR THE FORESEEABLE FUTURE DEPEND ON IMPORTING RAW MATERIALS, TECHNOLOGY, AND CAPITAL EQUIPMENT AND EXPORTING MANUFACTURES. IN THIS CONTEXT IT MUST ALSO BE NOTED THAT COMMODITY SCHEMES DESIGNED TO TRANSFER INCOME TO LDC'S CONTROLLING RESOURCES WILL ADVERELY AFFECT KOREA, SINCE HIGHER RESOURCE IMPORT COSTS MEAN HIGHER INPUT COSTS FOR ITS MANUFACTURES. HOWEVER, A STABLE PRICE SYSTEM WOULD BE OF BENEFIT.

7. FINALLY, A COLLORARY TO AN OPEN AND LIBERAL TRADING SYSTEM IS A LIBERAL POLICY IN TECHNOLOGICAL TRANSFER. KOREA HAS ADOPTED A POLICY STRESSING PURCHASE OF FOREIGN TECHNOLOGY WIFH SUBSEQUENT NATIONAL TECHNOLOGY DEVELOPMENT RATHER THAN IMPORTING IT THROUGH INVESTMENTS BY THE MULTI-NATIONALS. SPECIAL EMPHASIS IS BEING GIVEN UNDER THE FOURTH PLAN TO THE IMPORTATION AND LOCAL DEVELOPMENT OF TECHNOLOGY IN THE FOLLOWING FIELDS: MECHANICAL ENGINEERING, METALLURGICAL ENGINEERING, SEMI-

CONDUCTORS AND ADVANCED ELECTRONIS, CHEMICAL ENGINEERING, AND RESOURCE UTILIZATION TECHNOLOGY. SINCE LOCAL TECHNOLOGICAL SKILLS CANNOT BE OBTAINED OVERNIGHT, KOREA WILL BE DEPENDENT ON FOREIGN TECHNOLOGY TRANSFER FOR SOME TIME AS IT SEEKS TO MOVE INTO MORE HEAVY AND ADVANCED TECHNOLOGICAL INDUSTRIES.
SNEIDER

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC GROWTH, EXPORTS, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 15-Apr-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977SEOUL03050
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770133-0567
Format: TEL
From: SEOUL
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770452/aaaabsxy.tel
Line Count: 231
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 65e098a4-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: ONLY
Reference: 77 STATE 73295
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2792603
Secure: OPEN
Status: NATIVE
Subject: EAST ASIA ECONOMIC POLICY REVIEW
TAGS: PFOR, AMGT, ECON, KS
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/65e098a4-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009